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Division of General Services

PROCUREMENT AUDIT AND CERTIFICATION

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Sumter Area Technical College
AGENCY

April 1, 1985 - May 31, 1986
DATE

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BUDGET AND CONTROL BOARD
DIVISION OF GENERAL SERVICES
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COLUMBIA, SOUTH CAROLINA 29201
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HOUSE WAYS AND MEANS COMMITTEE

JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

May 25, 1987

Mr. Richard W. Kelly
Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Rick:

Attached is the final Sumter Area Technical College audit report and recommendations made by the Office of Audit and Certification. Since no certification request above the \$2,500 allowed by law was requested, and no action is necessary by the Budget and Control Board, I recommend that this report be presented to Dr. Coles for his information.

Sincerely,

William J. Clement, AIA
Assistant Division Director

Attachment

SUMTER AREA TECHNICAL COLLEGE
AUDIT REPORT

APRIL 1, 1985 - MAY 31, 1986

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CHAIRMAN,
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JESSE A. COLES, JR., Ph.D.
EXECUTIVE DIRECTOR

August 19, 1986

William J. Clement
Assistant Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

We have examined the local fund procurement policies and procedures of Sumter Area Technical College for the period April 1, 1985 through May 31, 1986. As part of our examination, we made a study and evaluation of the system of internal control over procurement transactions to the extent we considered necessary.

The purpose of such evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and internal procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures that were necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of Sumter Area Technical College is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling this

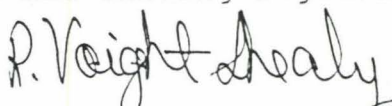
responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions as well as our overall examination of procurement policies and procedures were conducted with due professional care. They would not, however, because of the nature of audit testing, necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe to be subject to correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place Sumter Area Technical College in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.


R. Voight Shealy, Manager
Office of Audit and Certification

INTRODUCTION

The Office of Audit and Certification conducted an examination of the internal procurement operating procedures and policies and related manual of Sumter Area Technical College (SATC).

Our on-site review was conducted June 4, 1986 through June 26, 1986 and was made under the authority as described in Section 11-35-1230(1) of the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the SATC Purchasing Policies and Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

SCOPE

Our examination encompassed a detailed analysis of the internal procurement operating procedures of Sumter Area Technical College and the related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions. The examination was limited to procurements from local funds, which include some federal funds, local contributions, and student collections.

The Audit and Certification team of the Division of General Services statistically selected random samples of procurement transactions for compliance testing from the period July 1, 1985 through May 31, 1986. Other auditing procedures that we considered necessary in the circumstances to formulate this opinion were also performed. As specified in the Consolidated Procurement Code and related regulations, our review of the system included, but was not limited to, the following areas:

- (1) adherence to provisions of the South Carolina Consolidated Procurement Code and accompanying regulations;
- (2) procurement staff and training;
- (3) adequate audit trails and purchase order register;
- (4) evidences of competition;
- (5) small purchase provisions and purchase order confirmations;

- (6) emergency and sole source procurements;
- (7) source selections;
- (8) file documentation of procurements;
- (9) disposition of surplus property;
- (10) economy and efficiency of the procurement process;
and
- (11) approval of Minority Business Enterprise Plan.

SUMMARY OF AUDIT FINDINGS

Our audit of the procurement system of Sumter Area Technical College produced findings and recommendations in the following areas:

PAGE

I. Sole Source and Emergency Procurements

Two procurements reported as emergencies were the result of poor planning.

8

II. Compliance - Procurements

A. Competition

9

Fourteen procurements were not supported by evidence of competition. Two procurements had insufficient competition.

B. Blanket Purchase Agreements

11

Three blanket purchase agreements did not include information required by the regulations. Total expenditures exceeded the purchase order amount.

III. Internal Controls

Weaknesses in internal controls were 12
identified in the areas of voucher
payment approval, change order policy,
purchase order and contract utilization,
and receiving reports.

IV. Review of the Purchasing Policies
and Procedures Manual

Numerous areas need to be added or 14
changed.

RESULTS OF EXAMINATION

I. Sole Source and Emergency Procurements

The quarterly reports of sole source and emergency procurements and trade-in sales and all available supporting documents were examined for the period April 1, 1985 through March 31, 1986. This review was performed to determine the appropriateness of the procurement actions and the accuracy of the reports submitted to the Division of General Services.

Two procurements for the renovation of computer rooms were declared emergencies due to a failure to allow adequate lead time for the required procurement action.

The \$13,486.22 purchase of glass walls on check 50852 and the \$12,187.00 HVAC upgrade would normally require the solicitation of sealed bids from ten vendors; however, the College obtained two written quotes and four written quotes, respectively, and declared these emergency procurements. The emergency procurement methodology is intended for unforeseen situations, and, as such, was not appropriate in these cases.

Section 19-445.2110 of the regulations addresses the conditions for an emergency procurement. The college must adhere to the requirements of the Procurement Code and regulations when utilizing the sole source and emergency methods of procurement.

AGENCY RESPONSE

The college went through several major changes in terms of computer hardware, software, and location during the period from April to November, 1985. The decision to acquire and locate a separate computer center for the data processing curriculum was

made after a final meeting with the Data Processing Curriculum Advisory Committee in October, 1985. This was done with a commitment to being credit and non-credit courses in December, 1985, which left only two months for renovations of the new location.

The plan for the computer lab went from the room being initially designed with one wall to create two labs to a more complex design in October creating four mini-labs. The last design resulted in glass walls instead of removable partitions and a new HVAC system as a result of creating four rooms. The college solicited quotes from vendors in Columbia, Sumter, and Florence, but due to the time problem only a limited number was submitted from which the lowest was selected.

In summary, Sumter Area Technical College was responding to a need that had been identified by business leaders in our service area. As a result, time did not permit us to solicit bids through the material management office as outlined in the procurement code. It was an emergency purchase of goods and services which was done in an efficient and effective manner in order to fulfill our mission for Sumter, Kershaw, Clarendon, and Lee counties.

The College is developing a master plan for facilities and programs which will be of assistance in planning future renovations. This will be completed by February, 1988.

II. Compliance - Procurements

A. Competition

Fourteen procurements were not supported by documented competition or a sole source determination.

<u>Check Number</u>	<u>Invoice Amount</u>	<u>Description</u>
48557	\$2,302.00	Printing services
50994	3,374.00	Insurance
49960	771.91	Copier repair
50852	537.46	Glass replacement
48114	1,057.41	Printing press supplies
50126	1,630.13	Roof repairs
50727	880.05	Printing press supplies
51291	708.55	Bronze plaque
51611	996.65	Roof repairs
51863	907.11	Software
49050	2,121.00	Maintenance-office equipment

53506	1,003.95	Security services
49367	858.45	Security services
48356	1,042.75	Security services

In addition, check 49641, invoice amount \$2,253.62, was supported by two written quotations rather than the required three, and check 49808, \$3,138.95, had two written and one verbal quotation instead of three competitive sealed bids.

Section 19-445.2000, Subsection D, of the regulations describes the methods of source selection to be utilized for compliance with the Consolidated Procurement Code. These should have been utilized for the above transactions. Checks 50994 and 49808 exceed the college's certification limit of \$2,500.00, thus they are unauthorized procurements. As such, they must be ratified by the Materials Management Officer in accordance with section 19-445.2015 of the regulations.

All future procurements greater than \$500.00 should be supported by evidence of competition or, if appropriate, justified as sole source or emergency procurements. Procurements greater than \$2,500.00 must be forwarded to the Materials Management Office for competitive sealed bidding.

AGENCY RESPONSE

a. Printing Service.

The current fund budget for FY 1984-85 had a line item included for the college catalog in the amount of \$10,000. Bids were solicited in the fall of 1984 and the bid was awarded to the vendor submitting the lowest cost. The actual cost of the catalog was \$7,770 which was paid in February, 1985. It was determined in January, 1985 that as a result of the savings, the college could afford programs and departmental brochures to be produced by an external printer. Prices were solicited from several vendors. The vendor who had the contract for the catalog using the plates for this specific program was lower in cost; therefore, the decision to use the balance of funds from the catalog and solicitation of quotes was made in February, 1985, prior to implementation of the code. Due to a miscommunication

by the public information officer with the printer, payment was made after implementation of the procurement code in April, 1985.

b. Insurance.

The college has had a public liability policy in force since FY 1979. The cost of the policy prior to FY 1986 was \$2,016.00. Due to an oversight this policy was renewed without solicitation of written quotes. This purchase has been ratified by the State's Chief Procurement Officer and the insurance was discontinued at the expiration of the policy.

c. Copier repair, Printing press supplier, Glass replacement, Roof repair, Bronze plaque, and Maintenance-Office equipment.

In the transition of implementing the procurement code, the college was aware that these vendors were the only source available for the goods and services needed, and our interpretation was that a sole source document was not required to be filed. A review of the procurements listed in the audit report revealed that with the exception of two vendors the college would have been in full compliance if only the sole source document had been filed. This process has been rectified and all sole source documents are being processed as required.

d. Software.

This software was acquired for classroom application to be stored in the library for use of student. The college had been advised that educational software was exempt from the code and that there was only one vendor.

e. Security Service.

A contract was entered into in August, 1981 with a local security firm. This was done through the bid process with the award going to the lowest responsible bidder. It was a contract that could be terminated with 30 days notice by either party. Unfortunately, the contract has been lost and as a result the college was unable to produce documentation to procurement auditor. This contract was terminated in August, 1986.

B. Blanket Purchase Agreements

The college issued blanket purchase agreements to three vendors on a monthly basis. These were in the form of purchase orders which did not state the extent of obligation, the requirement for delivery tickets, or the required invoicing

procedures. In addition, monthly expenditures exceeded the specified amounts on the purchase orders examined, numbers 258, 595, and 1632. The purchasing agent's approval to alter the purchase order amount was not evident (see Finding III.2.). The dollar limitation per call was exceeded on purchase order 1632.

Section 19-445.2100 of the regulations states the terms and conditions to be contained in every blanket purchase agreement and requires that blanket purchase agreement files be reviewed by the agency "at least semi-annually." The college must comply with these requirements in order to have adequate controls for this method of procurement. The issuance of agreements effective for more than one month should be considered.

AGENCY RESPONSE

The college has revised its procedures for issuing blanket purchase agreements as required in section 19-445-2100 of the regulation stating the terms and condition of the agreement.

III. Internal Controls

The following weaknesses in internal controls were identified during the review.

1. Eight remittance vouchers were paid without an approval signature even though the signature was required.

Check Number

48284
49351
49904
50126
50727

48195
51234
50480

2. In nine instances invoices were paid for amounts greater than their respective purchase orders without the approval of the purchasing agent.

<u>Check Number</u>	<u>Invoice Amount</u>	<u>P.O. Amount</u>	<u>Difference</u>
48863	\$11,114.25	\$9,450.00	\$1,664.25
49822	561.72	438.77	122.95
49904	1,635.00	200.00	1,435.00
50126	1,630.13	1,350.00	280.13
50727	512.37	462.00	50.37
50727	514.60	462.00	52.60
50727	880.05	579.60	300.45
51611	996.65	100.00	896.65
53087	1,890.00	840.00	1,050.00

3. Three procurements for services were not supported by contracts or purchase orders to establish the terms and conditions of the contractual agreement.

<u>Check Number</u>	<u>Invoice Amount</u>	<u>Description</u>
49050	\$2,121.00	Office equipment maintenance
53506, 49367	2,905.15	Security services
48356		
52466	2,135.00	Painting buildings

4. Check 48114 was for a partial order, but the receiving report did not so indicate. This creates a potential for payments being made for goods or services not yet received.

Sound internal controls are required to ensure adherence to price quotations, affect compliance with the Code and regulations, and safeguard the assets of the college. SATC should enforce the requirement for payment approval on remittance vouchers, implement formal and informal change order procedures

(see Finding V.), and insist that receiving reports agree with their respective invoices.

The purchasing agent must obtain firm price quotations from vendors prior to issuance of purchase orders. Once she establishes the contract, she is best qualified to determine if price increases are acceptable. Her approval should be required in all cases. Lack of payment controls eliminates the effectiveness of the procurement function.

Failure to have a contract or issue a purchase order to a vendor means that there is not a legal and binding agreement between the college and the vendor. SATC must have a contract in place or issue a purchase order for every procurement action. A copy of the purchase order should always be sent to the vendor.

AGENCY RESPONSE

The college has reviewed its internal procedures and has implemented steps to insure all approved signatures are obtained in compliance with the college's purchasing policy and any actual purchases that exceed purchase orders are coordinated with the purchasing officer.

IV. Review of the Purchasing Policies and Procedures Manual

The SATC Purchasing Policies and Procedures Manual was reviewed for consistency with the Consolidated Procurement Code and regulations. The following areas need to be added to formalize college policy.

1. Statement of compliance with the S. C. Consolidated Procurement Code
2. State term contract usage

3. Approval authority for sole source and emergency determinations

4. Information technology plan requirement

5. Exempted commodities list

6. Surplus property disposition

7. Property control

8. Blanket purchase agreements and purchase orders

9. Approvals required to obtain accounting and legal services

10. Quarterly reporting of sole source and emergency procurements and trade-in sales

11. Late payment penalty

12. Change order policy

In addition, Section C.VII, "Emergency Purchase Orders," is not an adequate description of emergency procurements or their requirements.

AGENCY RESPONSE

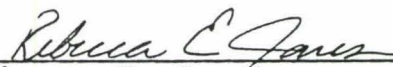
The manual in the purchasing office has been updated to include information of full compliance with the South Carolina Consolidated Procurement Code.

CONCLUSION

As enumerated in our transmittal letter, corrective action based on the recommendations described in the findings in the body of this report, we believe, will in all material respects place Sumter Area Technical College in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.

We must state our concern over the variety and extent of audit exceptions listed herein. The College should initiate immediate corrective action in conjunction with ongoing oversight by management. The corrective action identified in this report should be taken by the College by February 28, 1987, when this office will perform a follow-up review to assure that these requirements are met.

Subject to corrective action and because additional certification was not requested, we recommend that Sumter Area Technical College be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Procurement Code.


Rebecca E. Jones
Procurement Auditor


R. Voight Shealy, Director
Audit and Certification

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EXECUTIVE DIRECTOR

May 25, 1987

Mr. William J. Clement
Assistant Division Director
Division of General Services
300 Gervais Street
Columbia, South Carolina 29201

Dear Bill:

We have returned to Sumter Area Technical College to determine the progress made toward implementing the recommendations in our audit report covering the period April 1, 1985 through May 31, 1986. During this visit, we followed up on each recommendation made in the audit report through inquiry, observation and limited testing.

We observed that the college has made substantial progress toward correcting the problem areas found and improving the internal controls over the procurement system. With the changes made, the system's internal controls should be adequate to ensure that procurements are handled in compliance with the Consolidated Procurement Code and ensuing regulations.

Additional certification was not requested, therefore we recommend that Sumter Area Technical College be allowed to continue procuring all goods and services, construction, information technology and consulting services up to the basic level as outlined in the Consolidated Procurement Code regulations.

Sincerely,

R. Voight Shealy
R. Voight Shealy, Manager
Audit and Certification

